SECTOR STUDY . MARCH 2024

Together. Creating Value.

Media

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Introduction

- The media sector comprises organizations that are involved in the production, publication and distribution of various types of content. This content can be for informative, entertainment or promotional purposes and can be relayed to consumers on a range of platforms.
- The common types of content produced by media organizations consist of tv programs, films, newspapers, magazines, games and music, all of which is disseminated to the audience using various types of media platforms.
- The broad categories of media comprise the following -
  - **Print Media** includes all printed forms of media, the most common being newspapers and magazines.
  - **Broadcast Media** includes information transmitted through one of several mass communication channels, such as television (TV) and radio.
  - **Digital Media** includes content distributed online on websites and social media applications.
  - **Out-Of-Home (OOH) Media** includes content that reaches people outside the home on mediums such as billboards and hoardings.
- Many media companies operate in a combination of these categories. News organizations, for example, often maintain websites and e-papers alongside publishing traditional newspapers.
- Media buying is a process undertaken by agencies in order to identify and purchase ad space on channels that are relevant to the target audience at the optimal time, for the least amount of money. Media buying is a process relevant to both traditional marketing platforms and digital channels.


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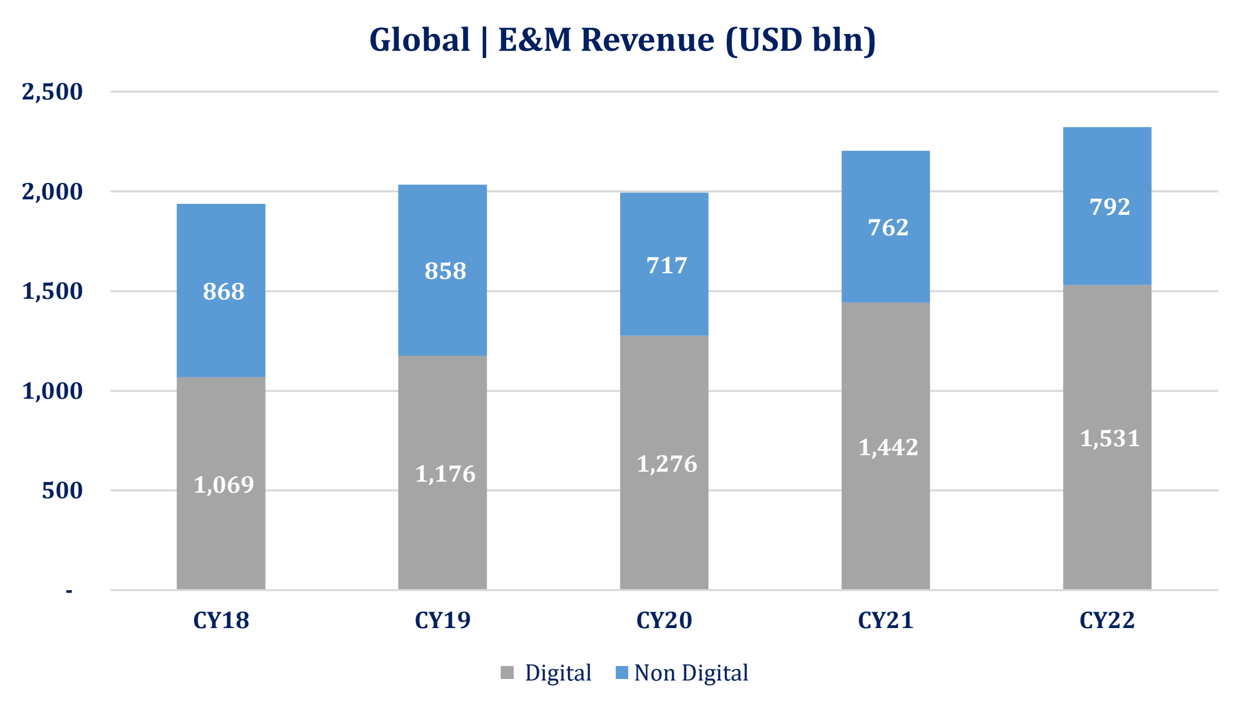
Global | Overview

- In CY22, global revenue of the Entertainment and Media (E&M) industry was up ~5.4% YoY to reach USD~2.3trn. This was a significant slowdown from the ~10.6% growth rate in CY21, when global businesses were beginning to recover from the disruption brought on by the COVID-19 pandemic.
- Global advertising revenue is expected to grow to USD~952.6bln from USD~763.7bln between CY22-27. Enterprises globally will be investing much more to contact customers at the point of purchase and decision-making as e-commerce and time spent on digital platforms increase. In terms of gaming, the total revenue is expected to rise from USD~227bln in CY23 to USD~312bln in CY27, representing ~7.9% CAGR.
- Meanwhile, cinema box office revenue from movies are expected to surpass pre-pandemic levels by CY25, reaching USD~43.0bln from USD~39.4bln in CY19.



- The top three global players, Amazon, Google, Meta and Amazon recorded revenues of USD~575bln, USD~306.0bln and USD~135.0bln, respectively, in CY23. Going forward, the increasingly digitized E&M business seems to be a perfect fit for generative Artificial Intelligence (AI). Tasks and workflows are likely to be automated in order to improve productivity. As generative AI becomes more widely used and sophisticated in the next years, E&M is expected to be at the forefront.
- However, generative AI also presents fundamental problems with business models due to its rapid evolution and development. It also brings up concerns about privacy, intellectual property, security and data protection, environmental degradation and ethics.

Source: PwC

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Local | Overview

- Pakistan's media sector, particularly television and radio, was opened up to the private players in 2002.
- As of 10MFY23, the Pakistan Electronic Media Regulatory Authority (PEMRA) had issued a total of ~269 licenses for FM Radio, ~3,970 Cable TV licenses and ~133 Satellite TV Licenses.
- In FY23, the size of media sector in terms of advertisement revenue stood at PKR~81.9bln, a decrease of ~8.0% from the previous year when advertising revenue stood at PKR~89.0bln.
- Average daily viewership per person recorded at ~3.0hrs, down ~11.8% YoY (FY21: ~3.4hrs). This is likely due to growing popularity of digital platforms and increasing usage of mobile phones which provide easy access to social media apps.
- During FY23, the number of mobile cellular subscriptions reached ~192.3mln, compared with ~194.5mln during FY22, indicating a decrease of ~2.2% YoY. Meanwhile, tele-density figures clocked in at ~81.4% during FY23 (FY22: ~84.6%).

Local Overview	FY22	FY23
Advertising Revenue (PKR bln)	89.0	81.9
YoY Growth	*17.0%*	*-8.0%*
Authority	Pakistan Electronic Media Regulatory Authority (PEMRA)	
Total Licenses issued by PEMRA till date		
Satellite TV licenses	123	133
Cable TV licenses	4,152	3,970
FM Radio licenses	265	269
Others	76	68

**Latest available data pertains to FY22 for average daily viewership per person.*

Source: PES, PTA, PEMRA, PTA, PACRA Database

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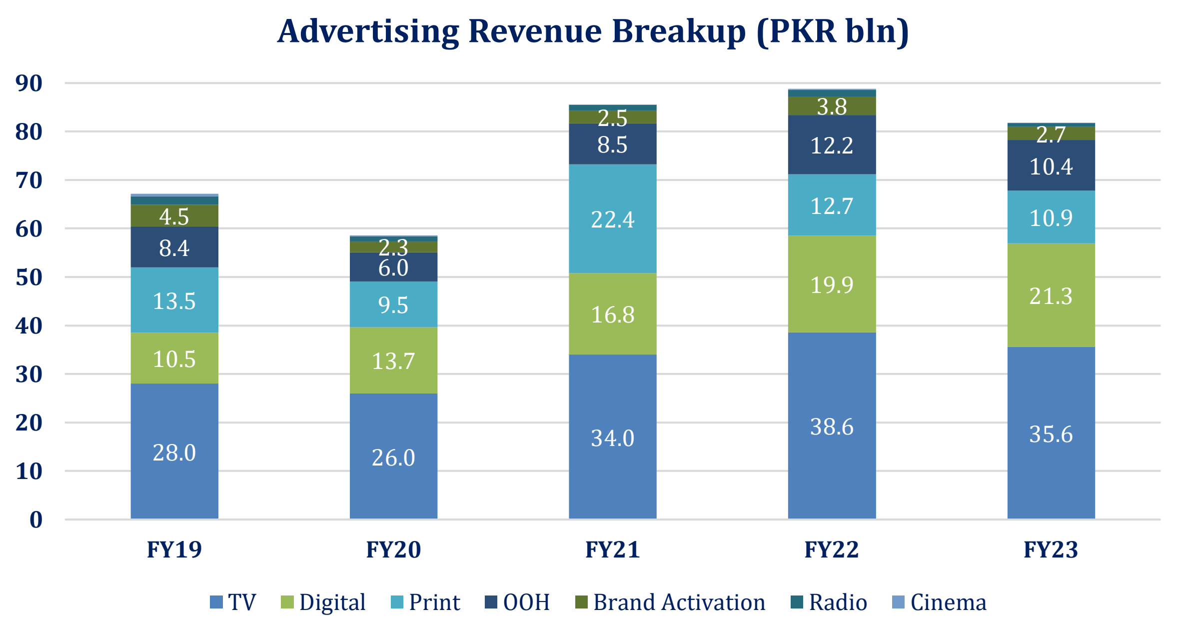
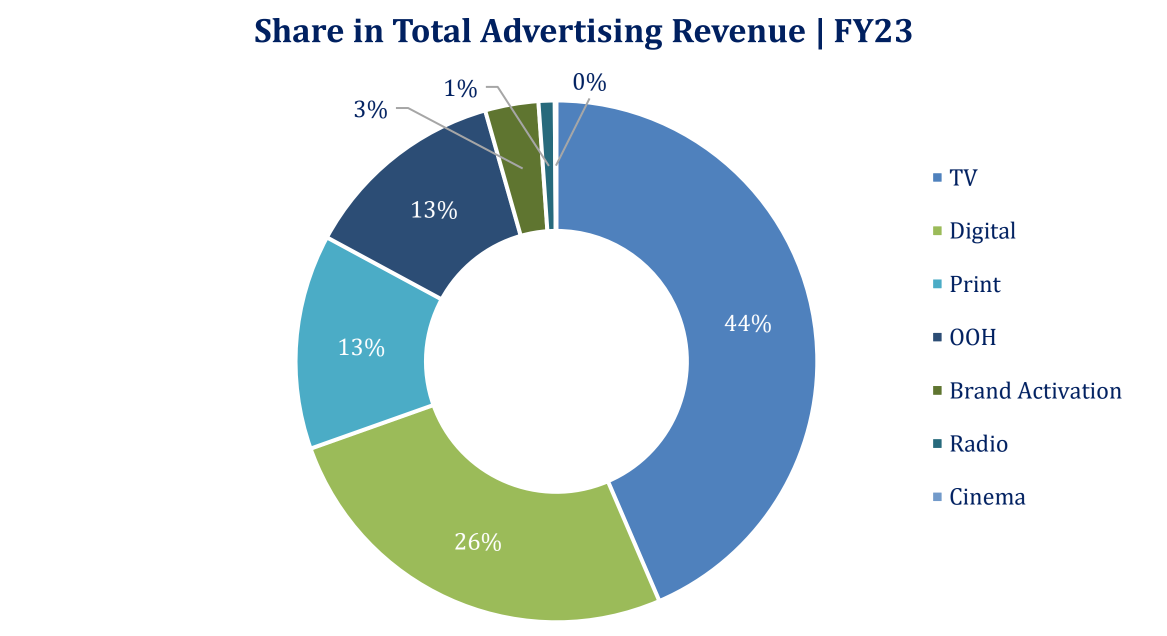
Local | Advertising Revenue

- Advertising revenue is the largest revenue stream for the media sector. However, during FY23, the sector's total advertising revenue decreased by ~8.0% YoY from PKR~89.0bln in FY22.
- The chart below depicts advertisement revenue earned by various segments falling under the media sector. TV remains the largest segment, recording at PKR~35.6bln in ad revenue earned in FY23. Meanwhile, digital was recorded at the second spot, growing at a CAGR of ~15.1% over the last five years (FY19-23).
- During FY23, the share of TV in sector's overall advertisement revenue was recorded at ~43.5%, staying relatively the same as compared with last year, while digital formed ~26.0% share during the year (FY22: ~21.3%).





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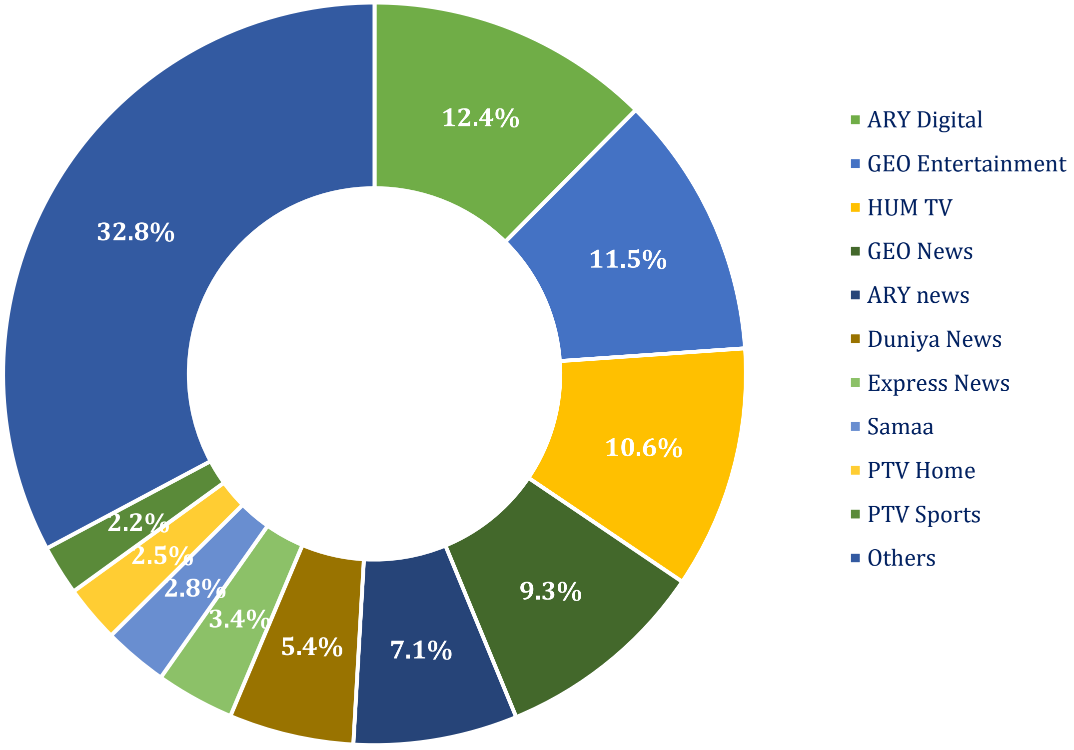
Advertising Revenue | TV Channels

- Compared to FY21, the rankings of top seven TV channels remained unchanged in FY22.
- Of the total PKR~38.6bln in TV advertisement revenue, the top seven TV channels included ARY Digital, Geo Entertainment, HUM TV, Geo News, ARY news, Dunya News and Express News, making up ~59.8% share.
- During FY22, Samaa TV climbed one rank up to become the eighth largest TV channel in terms of advertisement revenue (FY21: seventh rank).
- Similarly, PTV Sports has climbed four ranks up to become the tenth largest player, generating ~2.2% of the total advertisement revenue (PKR~0.8bln).

TV Advertisement Revenue | Channel-wise Breakdown



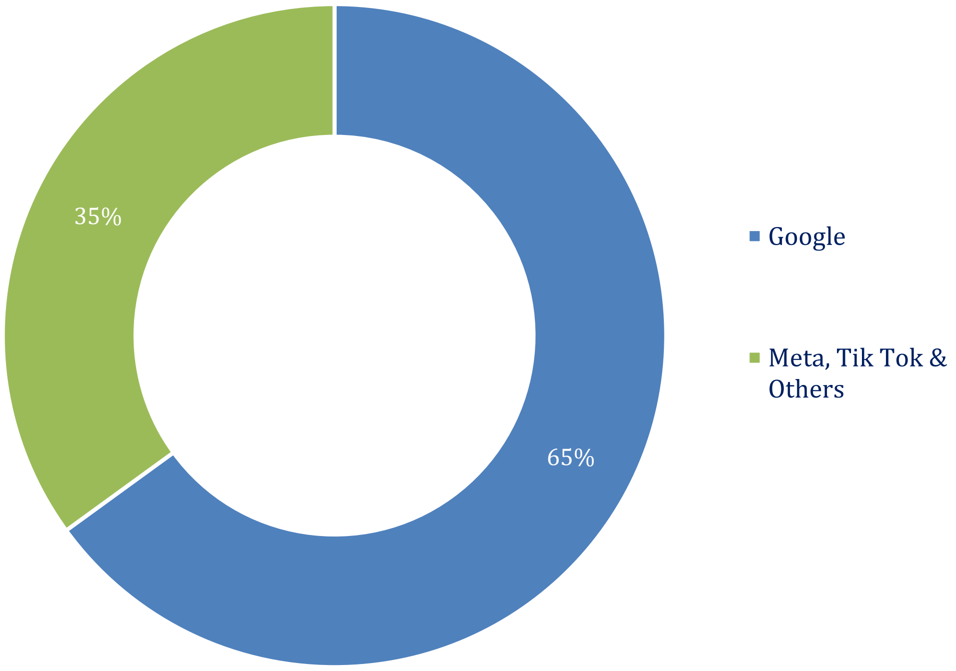
**Latest available data pertains to FY22.*

Source: Dawn

Advertising Revenue | Digital Media

- Digital media has grown exponentially in the recent years alongside growth in internet and social media usage.
- As of End-FY23, ~80.0% of the country's population was covered by 3G/4G mobile services. However, in terms of users, total 3G/4G subscribers amounted to ~111.3mln in FY23 (SPLY: ~99.4mln), recording ~12.0% increase YoY and representing ~48.3% penetration.
- A major chunk of mobile operators' revenue comes from the provision of data services. The share of data revenue in the gross revenue generated by mobile operators increased from ~38% in FY18 to ~65% in FY23.
- In terms of social media usage, YouTube recorded ~71.7mln social media accounts by End-FY23. Meanwhile, Facebook recorded ~43.8mln accounts, Instagram with ~13.0mln accounts and TikTok with ~16.5mln accounts during the same period. Overall, in Pakistan, there were ~72mln social media users in FY23, accounting for ~30.0% of the population.
- In terms of revenue earned from advertisements, Facebook forms the major chunk at ~35.0%, with Google and YouTube trailing at ~65.0% share.

Digital Advertisement Expenditure | FY23



Population for FY23 taken as ~230mln.

Source: Dawn, PTA

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Business Risk | TV

- **Traditional Media:** As mobile phone usage and access to internet services increases among the population, traditional media such as TV, print and radio, faces significant threat from the digital medium which is increasing in popularity. Moreover, as consumers switch to digital platforms so do the advertisers who want to reach their respective target audiences.
- **Growing Share of Digital Media:** Despite there bring a shift towards digital media, risk factors pertaining to this segment includes internet availability, target audience selection, shorter advertisement durations and frequent emergence of new social media applications.
- **Censorship:** The segment also faces stringent scrutiny of its content from the regulator and must ensure that guidelines regarding content are met to avoid censure or penalties in the form of fines etc. As the content is distributed on public platforms, it is also open to criticism from the general public who may lodge complaints with the regulator if they find the content objectionable.

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Business Risk | Media Buying

- **High level of competition:** There are a large number of media agencies operating in the market for media buying making it highly competitive. Players have to maintain their market shares without compromising on quality which can squeeze margins.
- **In-House Media Buying:** A growing trend is for large players in consumer goods industry to establish in-house media buying departments as it allows them to have greater control over cost and closer communication with marketing departments. However, this trend erodes the market share of independent media buying agencies.

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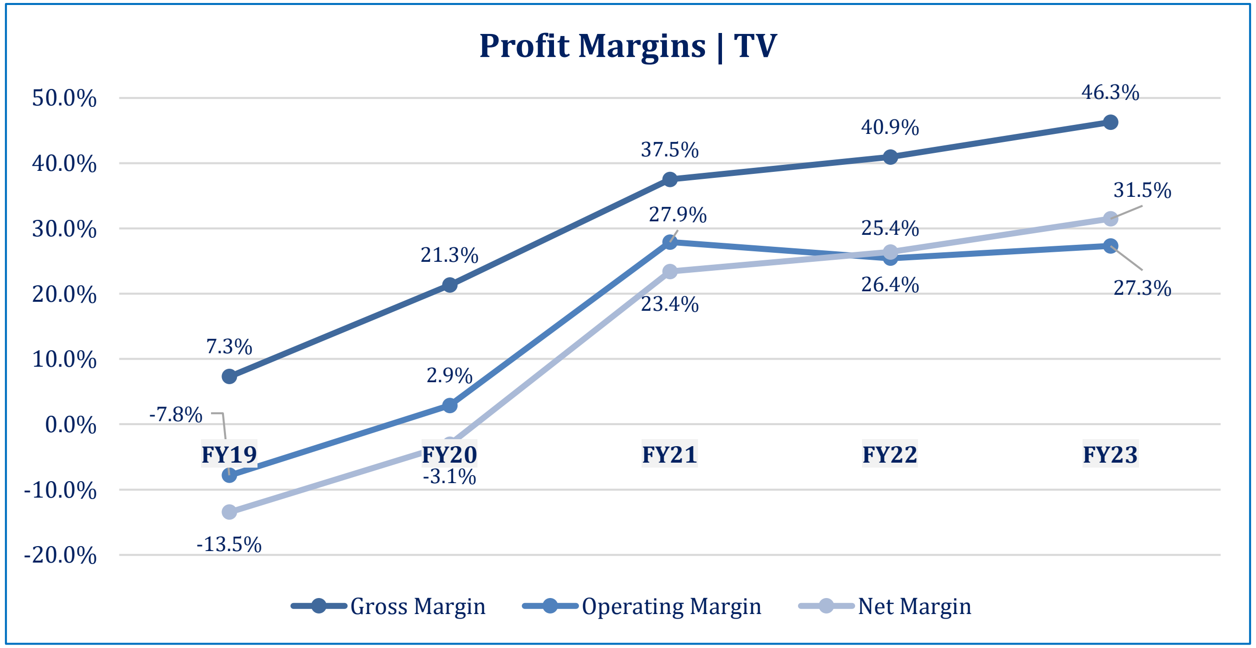
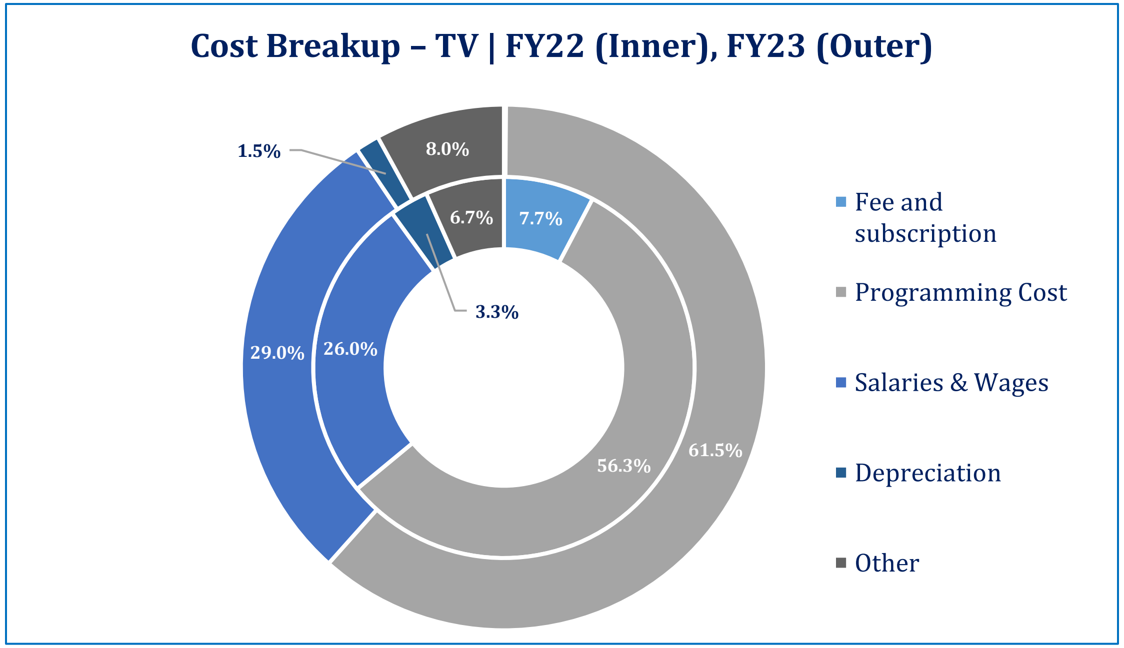
Margins & Cost Structure | TV

- The segment has exhibited average gross margin of ~26.8% (FY19-22) and in FY23 these increased to ~46.3% on the back of effective cost control and increased sales (while COGS increased ~13.0% YoY in FY23, revenue was up ~13.4% YoY). The segment's revenue comprises advertising, subscription income, production as well as digital revenue.
- Net margins also exhibited an increase in FY23 to ~46.3% from ~40.9% in FY22, likely on the back of lower finance costs which registered ~37.2% YoY decline in FY23. Moreover, the segment's overall borrowing also recorded a ~64.4% decline YoY in FY23.
- The largest component within direct costs for the programming costs, including both in-house and outsourced program costs, which amounted to ~61.5% of total direct costs in FY23. In addition, salaries and wages expenses also constitute a significant ~29% of total direct costs for the segment. The transmission cost had also increased ~26.8% YoY.





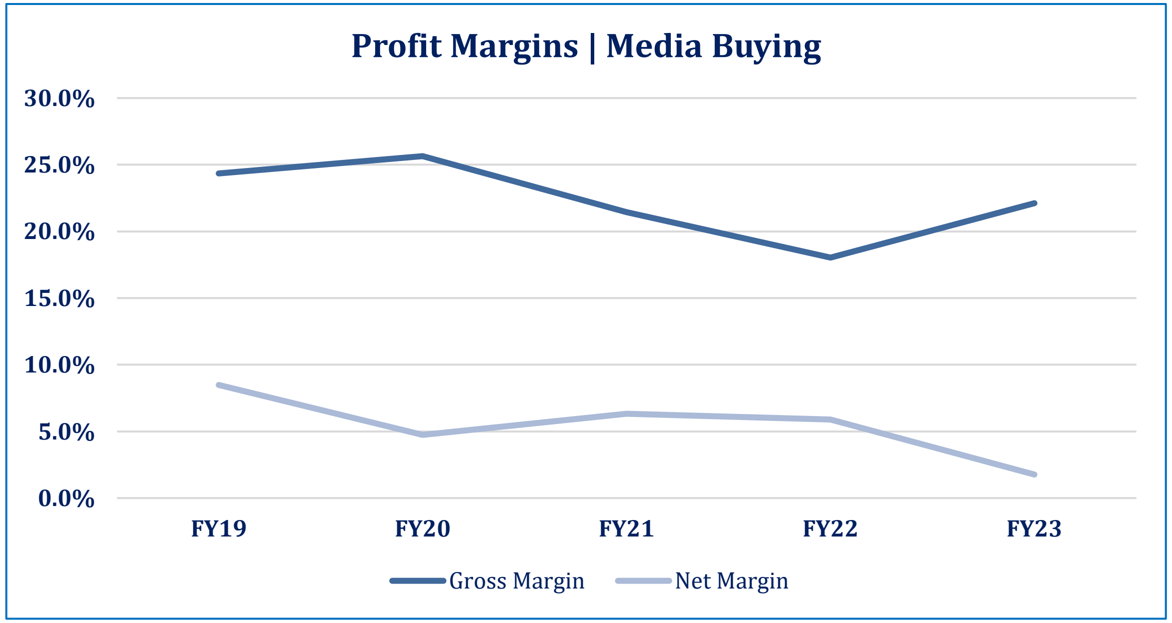
Margins and cost breakup figures are representative of 1 segment player.

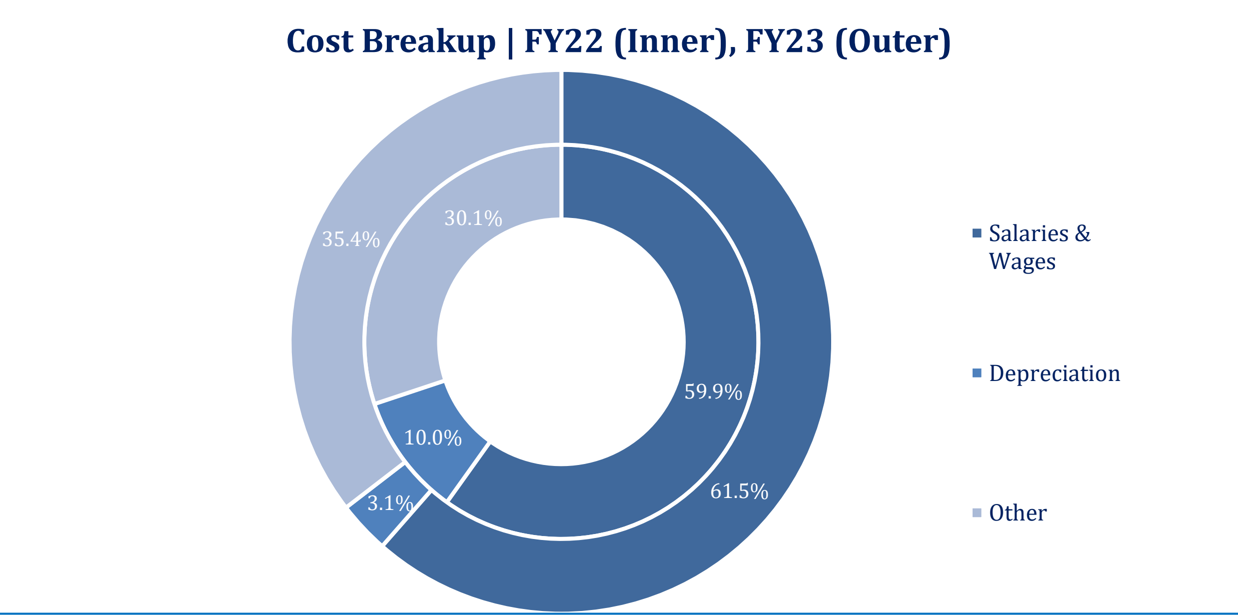
Source: PACRA Database

Media

Margins & Cost Structure | Media Buying

- The gross profit margins of media buying agencies have been relatively volatile in the recent years as the players are reliant on advertising budgets of clients which fluctuate due to various factors. Based on media buying segment's business model, the segment's gross and operating margins are largely similar. The media buying agencies operate on early payments and bulk discounts which they receive from TV channels, in addition to charging service fees.
- The segment's gross/ operating margins increased from ~18.0% in FY22 to ~22.1% in FY23, on the back of ~20.1% YoY increase in revenue during the year. However, net margins experienced a fall from ~5.9% in FY22 to ~1.8% in FY23 due to higher finance costs, which rose ~60.7% YoY.
- The largest component within operational costs for the segment is salaries and wages which amount to ~61.5% of total costs.





Margins and cost breakup figures are representative of 1 segment player.

Source: PACRA Database

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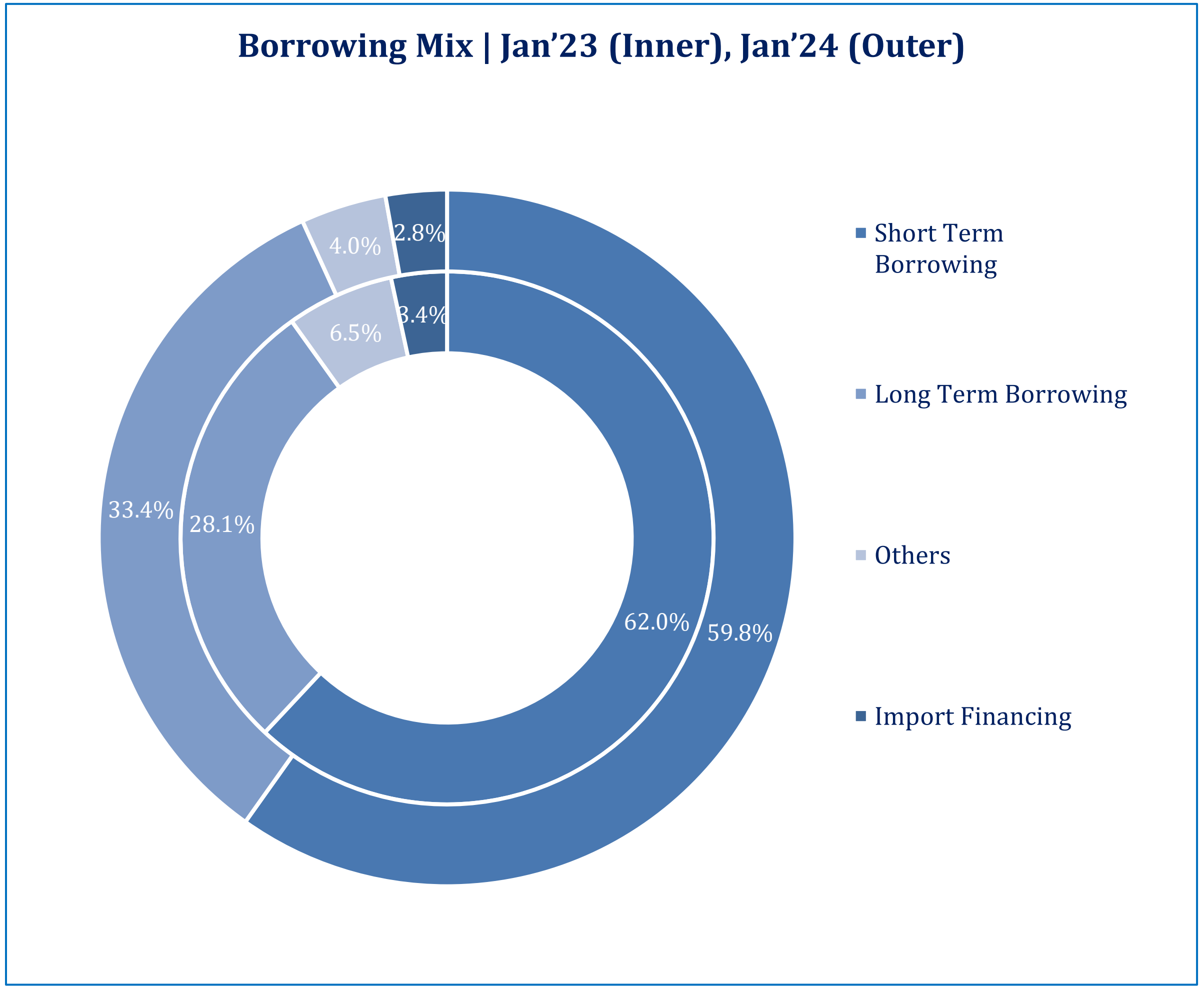
Financial Risk | Borrowings

- The total borrowing of the sector stood at PKR~25.7bln at the end of Jan'24, depicting an increase of ~51% YoY.
- The largest component of the borrowing mix in Jan'24 was the short-term borrowings which stood at PKR~15.3bln and comprised ~62.0% of the total borrowings (SPLY: PKR~11.3bln).
- Meanwhile, long-term borrowings stood at PKR~8.5bln and comprised ~28.1% of total borrowing (SPLY: PKR~5.1bln).
- Average leveraging for the TV segment was recorded at ~2.2% (on account of ~64.5% YoY decline in borrowings) while that for media buying clocked in at ~69.1% in FY23.



Note: *Leverage figures are representative of 1 player in each segment. SBP Classifications: "Printing and reproduction of recorded media", "Motion picture, video and television program production, sound recording and music publishing activities, Programming and broadcasting activities'*

Source: PACRA Database, SBP

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Regulatory Framework

- Pakistan's media sector is regulated by the Pakistan Electronic Media Regulatory Authority (PEMRA) which was established through the promulgation of PEMRA Ordinance in 2002, later passed as an Act of Parliament in 2007.
- PEMRA's mandate consists of four main objectives:
  - To improve the standards of information, education and entertainment
  - To improve access of the people to mass media at the local and community level
  - To enlarge the choice available to the people in media for news, current affairs, art, culture, sports and other areas of interest.
  - To ensure accountability, transparency and good governance by optimizing the free flow of information.
- Media organizations are required to abide by the Electronic Media (Programs & Advertisement) Code of Conduct, 2015 as notified by the Ministry of Information & Broadcasting. As per the code of conduct, at least 365 show-cause notices were issued to various channels until July 2021, while action was also taken against 28 advertisements and dramas. This has resulted in total fines of PKR~25mln.
- As per the PEMRA 2023 Amendment Bill, a substitution of section 29 has been suggested with it being able to impose fine up to PKR~1.0mln on a licensee who contravenes any of the provisions of the Ordinance or the rules or regulations or the code of conduct or the terms and conditions of the license, provided that in case of severe violations, the authority may impose a fine up to ten million rupees on the licensee.
- The sector is represented by a number of organizations which includes All Pakistan Newspapers Society, Pakistan Broadcasters Association and Digital Media Association of Pakistan.

Source: PEMRA

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Duty Structure

Description	Advance Tax		Sales Tax	
	FY23	FY24	FY23	FY24
Foreign produced TV drama serial or play	PKR 1mln/episode	PKR 1mln/episode	-	
Foreign produced TV play (single episode)	PKR 3mln	PKR 3mln	-	-
Advertisement starring foreign actor	PKR 0.5mln/second	PKR 0.1mln/second	-	-
Provision of advertising services, excluding print and electronic media, to non-residents	0%		-	-
Person providing advertisement services	0%		17%	18%

Source: FBR

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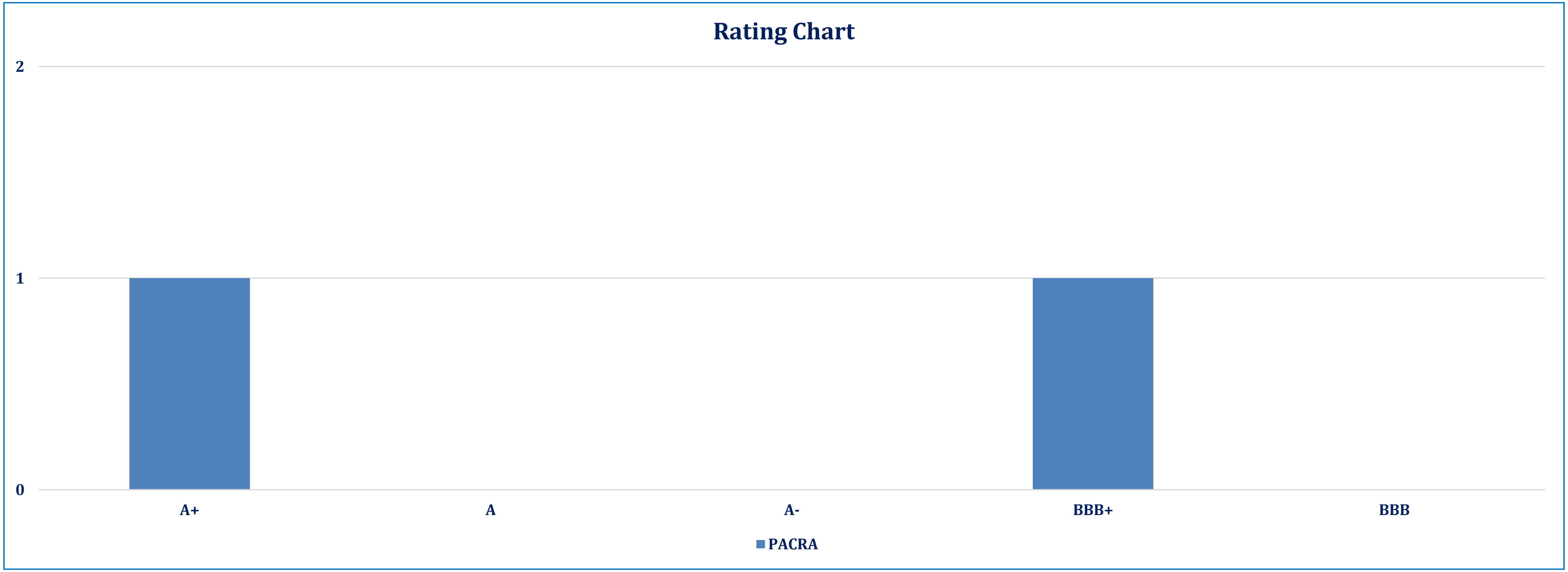
Rating Chart

- PACRA rates two entities in the media sector, one is a media buying house and the other a television network.



Source: PACRA Database

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SWOT Analysis

Strengths

- Increasing mobile phone, internet connectivity, and social media usage amongst consumers.
- Presence of multiple industry representatives such as All Pakistan Newspapers Society, Pakistan Broadcasters Association and Digital Media Association of Pakistan.

Weaknesses

- Concentration of revenue in the advertising segment
- Reduction in newspaper subscriptions and average TV viewership

Threats

- Changing consumption patterns of audiences
- Increasing Cybersecurity issues with rise of digital platforms

Opportunities

- Growth opportunities in digital platforms.
- Ample room for locally produced content in film and television industries that cater to significant proportion of youth in the country.

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Outlook: Stable

- Pakistan's economy experienced a real GDP contraction of ~0.2% in FY23 (FY22: ~6.1%), while the LSM fell by ~10.3% (FY22: ~11.8%). The primary causes of these declines were supply-chain disruptions brought on by import restrictions imposed by SBP, the August'22 flash floods, and the resulting slow demand across the country's major industrial sectors.
- As of 10MFY23, the Pakistan Electronic Media Regulatory Authority (PEMRA) had granted ~269 licenses for FM radio, ~3,970 licenses for cable TV, and ~133 licenses for satellite TV. With respect to advertising income, the media sector's revenue was estimated to be PKR~81.9bln in FY23, down ~8.0% from PKR~89.0bln recorded in the year prior.
- In FY23, TV's portion of the sector's total advertisement income was reported at ~43.5%, essentially unchanged from the previous year. In contrast, digital accounted for ~26.0% of the sector's revenue during the year (FY22: ~21.3%).
- The sector broadly comprises two segments, TV and Media Buying. For the TV segment, the gross profit margin increased to ~46.3% in FY23 due to effective cost control and increased sales while revenue was up ~13.4% YoY. Net margins also exhibited an increase in FY23 to ~46.3% from ~40.9% in FY22 possibly due to lower finance costs.
- In the Media buying segment, the segment's gross and operating margins increased to ~22.1% in FY23, due to ~20.1% YoY increase in revenue during the year. However, net margins experienced a fall from ~5.9% in FY22 to ~1.8% in FY23 due to higher finance costs, which rose ~60.7% YoY.
- The total borrowing of the sector stood at PKR~25.7bln at the end of Jan'24, depicting an increase of ~51% YoY. Average leveraging for the TV segment recorded at ~2.2% while that for media buying stood at ~69.1% in FY23.
- Going forward, the shift from television and print to digital media advertisement is growing at a fast pace, which may pose a risk to the television channels and intermediary advertising agents. As of End-FY23, there were ~72mln social media users in FY23, accounting for ~30.0% of the population. Moreover, the share of TV in sector's overall advertisement revenue was recorded at ~43.5%, staying relatively the same as compared with last year, while digital formed ~26.0% share during the year (FY22: ~21.3%). Overall,

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- The Business Research Company

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